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STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
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TAGS: EAGR EFIN EINV EPET ETRD SENV IN
SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
MARCH 24-28, 2008

NEW DELHI 00000902 001.2 OF 005

¶1. (U) Below is a compilation of Economic highlights from Embassy New Delhi for the week of March 24-28, 2008.

UNSEASONABLE RAIN LEAVES
SOUTH REELING

¶2. (U) A spate of unseasonable rains from March 19 to 24 caused 79 deaths and significant economic damage across South India, particularly in the agricultural sector. About 4.5 inches of rain, well above the seasonal norm of 0.3 inches, fell across the region. In the state of Andhra Pradesh, the rains affected some 141,000 acres, ruining many commercial crops like mangos, tobacco, peanuts, and legumes. An official from the state's disaster management office told Consulate Chennai that the state government is still assessing total cost of the damage. The rain damaged crops across some 69,000 acres of agricultural land in the state of Kerala (see Chennai 113), where the government told the press that losses may reach USD 45 million.

¶3. (U) In the state of Karnataka, the downpour affected nearly 400,000 acres of crops, including coffee, areca nuts, cashews, millet, corn, cotton, chilies, and vegetables. An official in the Governor's office told Consulate Chennai that that state is expecting the arrival of a team from the central government to assess the official value of the damages. He said, however, that preliminary estimates indicate losses of approximately USD 100 million. The state of Tamil Nadu's assessment teams recorded damage over an area of 500,000 acres with legumes, rice, and vegetables comprising the bulk of the affected crops. Tamil Nadu also announced that it will give farmers a compensation package of nearly USD 70 per hectare on top of the central government's standard compensatory payments of USD 125 per hectare.

DELL PLANS TO GO THE RETAIL

ROUTE IN INDIA

¶4. (SBU) Computer-maker Dell announced on March 21 that it plans to sell its computers in India through the Tata Group's Croma stores, an electronics retail chain. Long known for its business model of eschewing retail outlets in favor of taking orders directly via the Internet and assembling machines to each customer's specifications, the move is in line with the company's new strategy in the United States, China, and Europe, where Dell computers are now also available in some retail outlets. A spokesman for the company, which assembles laptops and desktops for the entire Indian market at a plant near Chennai, told our Consulate that the company is also considering launching its own chain of Dell retail stores to raise brand awareness in India. She said that such outlets would also allow customers to interact with their products before purchasing, an experience not possible with Dell's Internet-only sales model. She also said that the company plans to launch a low-cost computer in the third quarter of this year.

NEW HYDERABAD AIRPORT
FINALLY TAKES OFF

¶5. (U) Hyderabad's new airport began commercial operations on March 23, a week later than originally scheduled (see Chennai 99 and 100). A Lufthansa flight touched down just after midnight, marking the facility's official opening. (By coincidence, two USG visitors from the Ex-Im Bank were on the inaugural flight.) Media reports indicated that the facility's opening was marked by passenger complaints about delays, lack of transportation links to and from the city, and overly expensive coffee.

GOI May Abolish Import
Duty on Steel

¶6. (U) To check rising domestic steel prices, the Government of India (GOI) is considering the abolition of import duty on all grades of steel. Steel prices in the international market are rising steeply. According to the Indian Steel Alliance representing India's major steel producers, current domestic prices are about $950 per ton, about $50 more than international steel prices. During April 2007-February 2008, steel prices on an average increased 20 per cent in India. In order to meet local demands, India imports 6.5 million tons of steel a year, less than 13 per cent of the domestic consumption of 51 million tons. The domestic industry hit by rupee appreciation on one hand and increasing raw material prices on the other, has demanded elimination of import duty on steel inputs, and also bringing down the excise duty on steel. The current tariff is about 5 per cent. Industry analysts say without the duty, steel imports could rise to around 9 million tons. The GOI is also concerned about the major inflationary impact of high steel prices, affecting the cost of automobiles, consumer durables and construction.

¶7. (U) The Indian Steel Alliance last month also sought fiscal and physical measures to contain exports of iron ore. In response, Steel Minister Ram Vilas Paswan requested the Prime Minister's Office (PMO) to consider establishment of a regulator in the steel sector, impose a 10-percent export duty on steel and abolish import duty on all alloys. While the proposals of setting up of a regulator and a 10-percent export duty on iron ore are reportedly unlikely to be approved, the Finance Ministry is seriously considering the elimination of import duty on steel. The GOI has sought to use duty reductions as well in a bid to control rising palm oil prices. The import duty on crude palm oil was slashed to 20 percent from 45 percent, and on refined palm oil to 27.5 percent from 52.5 percent.

HIGHLIGHTS OF INDIA'S SIXTH
PAY COMMISSION REPORT

¶8. (SBU) The Sixth Pay Commission (SCP) on March 24 submitted to the government its long-awaited recommendations regarding pay increases for the four million plus central government employees, last done in ¶1997. The Commission recommended average salary hikes of 40%. However, the effective rate of increase will only be around 28%, since the 40% increase includes formalizing a 50% dearness allowance increase that began in 2004. The government's most senior bureaucrat, the Cabinet Secretary, would get the highest salary at $2250/month, while the minimum salary at the entry level has been put at $165/month. The salary hikes of the middle rung officers, such as directors and deputy secretaries, have been less generous and this class is already complaining. Due to hardships faced by defense personnel, the panel has put the military services' salaries on par with that of civilians, plus giving them special pay according to their hierarchy called "defense services pay". Additional allowances have been recommended for housing, education, and travel and these will be revised periodically to neutralize the effects of inflation.

¶9. (SBU) The Commission proposes that higher pay be linked to Performance Related Incentives for rewarding the top 20% of the high performers by way of a higher annual increase rate of 3.5% versus 2.5% for the rest of employees. Another notable feature of the SPC report is a proposal to ensure that India has a "young and dynamic bureaucracy with a result oriented approach" by creating additional senior technical/specialized posts which will be filled by contractual appointment from the private sector and from existing employees. This could end the monopoly of the top positions of Indian Administrative Services. The SPC suggests a market driven compensation package for young scientists and professionals. This implies that Chairpersons of regulatory bodies such as SEBI and IRDA will draw market linked salaries of up to $75,000 per annum. Retired people would be paid higher pensions, and even higher rates

have been recommended for retirees age 80 and above. The panel also proposes a new work culture of fewer holidays, favors flexible working hours for women, a new medical insurance and more incentives for early retirement.

¶10. (SBU) The SPC recommendations, which require Cabinet clearance before implementation, would result in an additional $3.2 billion cost to the government, which is lower than the Fifth Commission's payout of $4.3 billion and lower than expectations of $5 billion. This outlay will be shared by the central government and the railways. The railway budget has already factored in a $1.3 billion provision for the pay hikes. The SPC hopes to save $1.2 billion of the $3.2 billion by reconfiguring the computation of pensions, leaving a net annual cost to the central government of $1.9 billion. Given that the revision in salaries is with retrospective effect from January 2006, the cost of arrears to the central government works out to about $3 billion.

¶11. (SBU) The central government's extra obligation for the payhike and the arrears amounts to roughly 0.5% of GDP. Finance Minister Chidambaram implicitly left room in the budget for the Pay Commission, since he projected revenue growth of 15% but expenditure growth of just 6%, as well as a deficit to GDP ratio of just 2.5%, against the government's target of 3.1%. Chidambaram could also decide to pay the arrears in two years, rather than one, further cushioning the effect. The government also plans to divest from half a dozen government owned companies by public offers and this could earn as much as $2 billion (more below). Analysts opine that although the pay increases do not match the private sector salaries, they will add to the purchasing power of people and this will help to stimulate demand. Comment: The Pay Commission's proposals are less than what were expected, and even less than the last Pay Commission proposals a decade ago. If accepted as is, the pay hikes would do less damage than feared as the central and state governments are better positioned to absorb the higher cost than in ¶1997. However, since the pay raise is less than expected, political considerations may prompt the Cabinet to increase the pay raises, increasing the adverse impact on both the center and states' bottom lines. End comment.

GOVT MAY START UP

DISINVESTMENT AGAIN

¶12. (SBU) After a roughly two year freeze on privatizations, caused by resistance from the Left, the government has been signaling its intent to sell off 5% and 10% stakes in public sector companies. Such small sell-offs do not require parliamentary - and hence Left - approval. The revenues would come in handy to help pay for the proposed $15 billion farm debt waiver program, as well as the expected hikes in government employee wages in as proposed in the just released Pay Commission report. The Ministry of Finance first indicated its divestment plans on February 28, in a list of reforms in the Economic Survey. The Ministry has now indicated it plans to sell off 5% stakes in MMTC, State Trading Corporation, Container Corporation, and Shipping Corporation of India, which could bring in as much as $2 billion. The government will need such additional revenues to help pay for both the government pay hikes and the farmer debt waiver program.

CABINET APPROVES FARM
WAIVER FUNDING

¶13. (SBU) The government finally laid out its funding plans for the massive $15 billion farm debt waiver program announced February 29 in the budget. The Cabinet approved the establishment of a farmers' debt relief fund that will start with $2.5 billion, which the Ministry of Finance says it can provide from above-target revenues that came in during the last few months and were not otherwise allocated. Further, the government will provide funding in four

additional increments through 2011-12. Under this plan, the cost to the government in the new fiscal year, which starts April 1, will be $3.75 billion.

GOI TRYING TO SHIFT BLAME ON INFLATION

¶14. (SBU) Demonstrating how politically important the control of food prices is for the ruling UPA coalition, the Finance Minister and members of Parliament have in the last week taken to blaming the US' biofuel policy for high global commodity prices. Finance Minister Chidambaram spoke out against the use of food crops, such as maize or sugarcane, for fuel at a lecture in Singapore this past week. He claimed that the policy deprived a large proportion of the world's population of food at reasonable prices. Members of Parliament made similar strong comments to Emboffs this past week as well. The remarks came soon after wholesale inflation jumped from 5.11 to 5.92% in one week, above the central bank's comfort zone. The rise in food inflation was more modest, increasing from 5.2 to 5.4%, but still at an uncomfortable level for the coalition. The government also moved this past week to drastically cut the import duties on edible oils (usually in the 40-70% range), as well as removing the import duty on rice.

INDIAN BANKS REDUCING INTEREST RATES

¶15. (SBU) Press reports indicate that most of the public sector banks, including the State Bank of India, Bank of India, Bank of Baroda, Canara Bank, Union Bank of India and many others have lowered their benchmark prime lending rates (BPLR) and also their home loan rates in the past month. These banks have heeded a signal given by the Reserve Bank of India in its quarterly review last month -- as well as comments from Finance Minister Chidambaram -- to cut their lending rates to stimulate credit growth, considering that credit growth has moderated, leading to ample liquidity. IDBI Bank also announced that it would reduce its BPLR by 50 basis points to 12.75% from 13.25% with effect from April 1. This will bring down the banks' interest rates on retail and corporate loans that are linked to the prime lending rate. This in turn should spur more demand for consumer durables, which has slowed in recent months. With the reduction in lending rates, banks are likely to reduce their deposit rates as well within the month as deposit growth has exceeded targets.

INDIA TO SURPASS US
IN WIRELESS MARKET

¶16. (U) India's telecom regulator, TRAI, has forecast that India will become the second-largest wireless market in the world after China by end-April. India had 250.93 million wireless users by February-end, compared with 540.5 million users in China and 256 million users in the US. Additionally, India adds 8-9 million subscribers monthly compared to the U.S., which is adding 2-3 million subscribers monthly. At those rates, India is projected to surpass the US by end-April in total wireless users. India's significant growth in wireless users is led by Bharti Airtel, followed by Reliance Communications and Vodafone Essar. Concomittantly, India is seeing a decline in the number of fixed-line subscribers.

FICCI TO UNVEIL NEW STUDY ON
INDIA'S PIRACY INDUSTRY

17.(U) The first Bollywood-Hollywood collaborative report on India's piracy industry will be unveiled during the annual Federation of Indian Chambers of Commerce and Industry (FICCI) Frames conference.

According to the joint report by the US-India Business Council (USIBC) and the US Chamber's Global Intellectual Property Center, piracy and counterfeiting robbed India's USD 11 billion entertainment industry of approximately USD 4 billion, 40 percent of potential annual revenues, and around 820,000 jobs. The new study illustrates the need for the GOI to implement stricter legislation and tougher policing of piracy and counterfeiting and a more cohesive strategy across industry segments. According to the report, India's entertainment industry lost 38 percent of total potential sales from the illegal trade of CDs, DVDs, music downloads, and television, an increase from the 25-30 percent estimated loss last year. In absolute numbers, the television industry was hardest hit with a loss of USD 2.7 billion compared to total potential earnings of USD 6.9 billion. As a result of piracy, the film industry lost USD 959 million, 31 percent loss to the industry. However, the music industry experienced the heaviest loss in terms of proportion of total potential revenues with a 64 percent loss of total revenues and a total profit of USD 183 million for corporations, which is significantly lower than potential revenues of USD 508 million. Lastly, the gaming industry lost USD 40 million with revenues totaling USD 24 million. Furthermore, the report estimates that the entertainment industry loses 820,000 jobs every year as a result of piracy- 571,896 jobs from the film segment and 133,434 from music. India's private sector increasingly creates intellectual property, raising its direct opportunity costs from piracy. Studies such as these which demonstrate the costs of piracy may help in building support for IP protections.

¶18. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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